

## EMF-ECBC Comments on the Proposed Amendments to the EU Taxonomy Delegated Acts

*European Mortgage Federation-European Covered Bond Council (EMF-ECBC)*

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The European Mortgage Federation-European Covered Bond Council (EMF-ECBC) welcomes the Omnibus Package on Sustainability, including the proposed amendments to the Delegated Act on Taxonomy disclosure which aim to simplify and reduce the administrative burden for companies of sustainability reporting. The EMF-ECBC also supports the EU Commission's plan to make the EU Taxonomy simpler and easier to use.

At the same time, we believe that the significant disclosure requirements for financial institutions when introducing reporting simplifications for non-financial companies should be reduced in order to enable them to fulfil their own reporting obligations and to avoid trickle-down effects. This applies in particular to bank-specific reporting obligations (Pillar 3 disclosure, ESG reporting) and data requirements in the context of risk management (ECB Guidelines, EBA Guidelines on the Management of ESG Risks).

In view of the proposals to amend the delegated acts on the Taxonomy, we also see further potential to simplify the basic mechanisms.

For real estate financing, the design and usability of the technical screening criteria (TSC) in relation to the environmental objective of climate change and the activities 7.1 New construction, 7.2 Renovation and 7.7 Acquisition 1 Ownership of Buildings are particularly important and in need of improvement.

In particular, the complex and demanding "Do No Significant Harm" (DNSH) criteria jeopardise the transition to a climate-neutral building stock, as they stand in the way of Taxonomy compliance. The required testing procedures are so time-consuming and documentation-intensive that the costs and benefits are far from proportionate. Unfortunately, since the EU Taxonomy and the Delegated Acts came into force, it has become clear that the Taxonomy is hardly used in practice in real estate financing and refinancing in the banking sector. We therefore fully agree with the Platform on Sustainable Finance's (PSF) statement that "*significant efforts should be invested into making the Taxonomy easily applicable to financial products, instruments, and mortgages*"<sup>1</sup>.

The EMF-ECBC therefore believes that significant attention should be paid to CO2 savings and a drastic reduction in the importance of the DNSH criteria. These should be declared in their entirety as "observation criteria", at least for the time being, so that the failure to meet a single requirement does not automatically lead to the disqualification of Taxonomy alignment<sup>2</sup>. We also suggest at least a significant reduction in the number of requirements, evidence and documentation for the DNSH criteria for the "construction of new buildings" and the "renovation of existing buildings".

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<sup>1</sup> PSF report (January 2025), page 92

<sup>2</sup> The PSF proposes that the DNSH criteria be temporarily waived for car loans and housing loans. However, the lack of data to check the DNSH criteria also applies to many other activities. Moreover, the highly complex DNSH criteria reinforce the binary nature of the Taxonomy described in 1.1.

## **1. General**

### **1.1 The binary nature of the EU Taxonomy & link to EUGBS**

The current binary classification system means that failure to meet a single criterion results in an activity being classified as non-aligned with the Taxonomy. This approach disregards partial sustainability progress and discourages participation. Indeed, generally-speaking, reporting requirements should carefully balance costs and benefits with a view to securing tangible incentives for financial market participants. We advocate for a shift towards a weighted scoring system that prioritises climate impact while allowing for a more nuanced assessment.

Furthermore, once an asset is deemed Taxonomy-aligned, this classification should remain valid for the duration of the asset's or loan's lifecycle, and these assets should not be subject to future alignment review.

### **1.2 Entry Standards Too High**

The Taxonomy currently sets high entry standards and offers hardly any incentives to renovate and acquire buildings with particularly poor energy performance. This results in low adoption rates and inefficient resource allocation. We support the PSF's recommendation to harmonise the targets of the Energy Performance of Buildings Directive (EPBD) with the Taxonomy. However, the assumption that the Taxonomy should be more ambitious than the EPBD<sup>3</sup> undermines harmonisation efforts and usability.

### **1.3 Lack of mapping activities**

Transitional activities, which make an important contribution to the gradual improvement of sustainability, are not sufficiently taken into account in the current Taxonomy and are consequently not sufficiently incentivised for the real and financial economy. This is a significant shortcoming, as such activities are crucial for the transition to a more sustainable economy. Suggestions for better mapping of transition activities in relation to building-related activities can be found in section 2.3.

### **1.4 Complexity of technical screening criteria and data availability**

The PSF rightly notes that data required to meet the Do No Significant Harm (DNSH) criteria are often unavailable, creating practical barriers to compliance, making it difficult to use the Taxonomy and carry out the necessary reporting<sup>4</sup>.

In our opinion, a good example of this is the renovation activity (see also 2.2 Renovation): It is much more difficult to document the required 30% savings as efficiency gains based on renewable energy systems may not be taken into account. Proving compliance with water consumption, recycling rates and pollutant limits as part of the DNSH audit is extremely time-consuming or even impossible: there is a lack of data, and there are no incentives or obligations to document compliance in the construction or renovation process in line with the requirements of the Taxonomy.

We would therefore like to highlight the importance of the following:

- Simplification of technical screening criteria, particularly for new construction (7.1) and renovation (7.2), with a focus on key decarbonisation measures.

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<sup>3</sup> PSF report, page 89

<sup>4</sup> E.g. PSF report (January 2025), page 93, recommendation for future developments: "Review building-specific DNSH criteria and simplify reporting requirements [...]"

- Standardised legal requirements across the EU to address data gaps in the real economy.
- The rapid establishment of barrier-free databases to facilitate data collection and reporting.<sup>5</sup> We welcome the PSF's recommendations on the establishment of databases, for barrier-free access<sup>6</sup> and for the temporary use of proxies<sup>7</sup> (e.g. for the necessary energy data in the energy performance certificate estimates based on building regulations and year of construction<sup>8</sup>) in the case of current data gaps.

We would also like to take this opportunity to highlight that climate risk assessment and management methods should align with ISO 14090 and ISO 14091 standards.

## 1.5 Lack of proportionality

A key example of a disproportionate burden is the renovation of owner-occupied housing, where Taxonomy compliance is often economically unfeasible. The PSF rightly points out that the same DNSH criteria apply to the renovation of owner-occupied residential property as to the construction of large buildings and that the reporting burden is considerable due to the insufficient data available<sup>9</sup> and that there is a need to simplify the burden of proof in the small-volume business<sup>10</sup>.

We recommend embedding proportionality into the Taxonomy to ensure that renovation loans for owner-occupied housing face fewer bureaucratic hurdles. With regard to the building sector, in particular new construction and renovation of owner-occupied residential property should be exempted from the obligation to check the DNSH criteria (see also the PSF recommendation).<sup>11</sup>

## 2. Specific comments and proposals on the building criteria

### 2.1 New construction

We acknowledge the recommendation from the PSF to update the TSC to take account of the 2024 EPBD Recast and specifically the replacement of NZEB with ZEB. A key question is exactly how the TSC will be adapted to the ZEB requirement and a potential new performance level. Indeed, the potential for even stricter requirements for new construction should be carefully considered in light of rising construction costs and housing shortages across Europe.

### 2. Renovation of existing buildings

In addition to suggestions made under 1.4, 1.5 and 2.3, we would like to highlight that the Taxonomy currently requires the separation of efficiency gains based on renewable energy sources from those that are achieved elsewhere and therefore need to be taken into account. This separation is extremely time-consuming, if possible at all. Additionally, demonstrating efficiency gains is often only feasible

<sup>5</sup> PSF report, page 93, Recommendations outside the Climate Delegated Act: "Allow investors, lenders, and certifying bodies to have direct access to EPC databases and develop an EU-wide framework of unique identifiers, e.g., based on geo coordinates, such that lenders are in a position to conduct automated checks to identify when EPC or updated EPC are available."

<sup>6</sup> PSF report (January 2025), page 93, Recommendations outside the Climate Delegated Act: "Allow investors, lenders, and certifying bodies to have direct access to EPC databases and develop an EU-wide framework of unique identifiers, e.g., based on geo coordinates, such that lenders are in a position to conduct automated checks to identify when EPC or updated EPC are available"

<sup>7</sup> PSF report (January 2025), page 99, point 1: "Allow proxies to demonstrate compliance with the TSC, with the requirement to label proxied data as such"

<sup>8</sup> PSF report (February 2025: "Simplifying the EU Taxonomy", page 23, second bullet point)

<sup>9</sup> PSF report, page 88: "Moreover, the same DNSH criteria apply for renovations (with the exception of DNSH 6), which often cover renovation in households and/or small assets, as for the construction of large buildings – the reporting burden and difficulty to access data is difficult to label households renovations as EU Taxonomy aligned."

<sup>10</sup> PSF report (January 2025), page 97, recommendations, Point 2: "Facilitate compliance for residential renovations, particularly for renovations of buildings under a certain size – to ease reporting for financial institutions and energy service companies"

<sup>11</sup> PSF report (February 2025 "Simplifying the EU Taxonomy", p.18, "For retail lending")

post-financing (e.g., via an EPC before and after renovation). However, for Taxonomy-aligned financing of a renovation, the evidence would have to be provided at the same time as the financing application.

Furthermore, loans are not allocated on an activity basis. Such a structure lacks pragmatism: a bundle of different energy-related renovation measures (e.g. installation of a PV system and energy-related thermal insulation) is often financed with a single loan.

We therefore propose that efficiency gains from renewable sources be taken into account for renovations by amending footnote 299 of Commission Delegated Regulation (EU) 2021/2139<sup>12</sup> accordingly.

### **2.3 Interaction between 'Renovation of existing buildings' and 'Acquisition and ownership of buildings'**

Renovation is often co-financed as part of building acquisition loans and in many cases, only a small part of the loan is used for the renovation. However, if post-renovation efficiency improvements fail to meet the strict Taxonomy criteria (e.g., achieving EPC class A or ranking in the top 15% of the building stock), the entire loan is deemed non-compliant. This issue has been acknowledged by the PSF<sup>13</sup>. To address this, we propose:

- Allowing the entire loan (not just the renovation portion) to be classified as “green” if the renovation meets Taxonomy criteria.
- Reducing screening criteria (in particular DNSH) to focus on key decarbonisation measures and simplifying verification.
- Allowing transitional green status for buildings on a defined decarbonisation pathway<sup>14</sup>.

### **2.4 Acquisition and ownership of buildings**

We reiterate our support for the measures that would enhance the applicability of the Taxonomy and support the broader goal of building stock decarbonisation. Additionally, we welcome the PSF's recommendation to allow proxy solutions for documenting Taxonomy compliance, given current data limitations<sup>15</sup>.

Moreover, ensuring comparability of Energy Performance Certificates (EPC) and energy efficiency classes across the EU is essential to improve data consistency and usability across Member States.

## **3. Green Asset Ratio**

The EMF-ECBC welcomes the adjustment of the denominator and numerator of the GAR: in the consultation document, exposures to companies not subject to the CSRD are excluded from the denominator of the applicable KPIs until the Commission's review of the Disclosures Delegated Act is finalised. However, since this measure is stated to be temporary until the finalisation of the Act, we

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<sup>12</sup> “[...] The 30 % improvement results from an actual reduction in primary energy demand (where the reductions in net primary energy demand through renewable energy sources are not taken into account), and can be achieved through a succession of measures within a maximum of three years”.

<sup>13</sup> PSF report, page 89, Renovation to acquisition and ownership: “However, in most jurisdictions the renovation criteria for a “major renovation”, or 30% energy reduction outside of the EU, does not result in the building reaching energy performance level of EPC A. However, EPC A is the required threshold to acquire or own an EU Taxonomy aligned building before December 2020. Ebd. page 97, point 3, Recommendations for future developments: “Instigate: a. the reporting imbalance of mortgage / loan ratios of renovation compared to new construction and ensure that sustainable finance for renovation is not disincentivised b. the Taxonomy-compliance of the loan / mortgage when the owner uses blended finance”

<sup>14</sup> This would also be in line with the PSF's idea of introducing decarbonisation paths in the ‘Acquisition and ownership of buildings’ activity, see PSF report, page 99.

<sup>15</sup> PSF report, page 99, point 1: “Allow proxies to demonstrate compliance with the TSC, with the requirement to label proxied data as such”

believe it is essential that this provision is made permanent rather than temporary for as long as there is no symmetry in the GAR denominator and numerator.

As part of the planned further revision of the Delegated Act on Taxonomy Disclosure, we suggest aligning the companies subject to reporting under the CSRD and Taxonomy in order to ensure data availability for companies subject to reporting under the Taxonomy.

In order to assess the extent of a credit institution's Taxonomy-compliant activities and to compare them with other banks, it is useful to relate them to the Taxonomy-eligible activities. Currently, institutions report ratios that show a) the share of Taxonomy-compliant activities in total assets and b) the share of Taxonomy-compliant activities as a proportion of reduced total assets (i.e. the GAR denominator). The use of different denominators makes it impossible to compare the ratios. We therefore advocate the introduction of a ratio that shows the ratio of Taxonomy-compliant assets to Taxonomy-eligible assets.